To: Cash Management Policy Board

From: Jennifer Appel, Kevin Leonard & Jonovan Sackey

Date: October 8, 2026

Subject: Delaware Budget Reserve Account Reserve Analysis

Background

NEPC was asked to update the Delaware Budget Reserve Account (Rainy Day Fund) analysis to ensure that an adequate reserve, or cushion, above the statutorily required amount was maintained. The minimum amount that must be maintained in the Budget Reserve Account for Fiscal Year 2027 is $392,065,000, which is an increase of $25,520,000 from the Fiscal Year 2026 level of $366,545,000. Based on the analysis from last year's Budget Reserve Account analysis, NEPC recommended a $5,000,000 cushion be added to the FY2026 budget to maintain a conservative position amidst concerns following the government shutdown and trade policy uncertainty.

Consistent with previous reviews, JP Morgan and NEPC prepared analyses that considered increases in interest rates and other market shocks. The results of these separate analyses are presented in the subsequent section and result in a recommendation for consideration by the Cash Management Policy Board.

Analysis

JP Morgan prepared the following analysis of the reserve based upon interest rate increases of 0.25%, 0.50%, and 1.00%.

NEPC conducted a second analysis using NEPC's September 30, 2026 Capital Market Assumptions to frame expected volatility and confidence intervals. The analysis, presented below, shows a "Gross Decline", which mirrors the JP Morgan analysis as it presents the immediate results of a market shock, and the "Net Decline", which presents the results (gain or loss) one-year forward – accounting for the yield accrued on the portfolio during that time.

State of Delaware
Budget Reserve Account "Rainy Day Fund"
Data as of September 30, 2026

Required Balance $392,065,000

			Gross Decline with a		
	Return	Volatility	1 SD Event	2 SD Event	3 SD Event
NEPC Capital Market Assumptions	5.30%	2.40%	$(28,190,893)	$(56,381,785)	$ (84,572,678)

			Net Decline with a		
	Return	Volatility	1 SD Event	2 SD Event	3 SD Event
NEPC Capital Market Assumptions	5.30%	2.40%	$ 35,238,616	$ (7,047,723)	$ (21,143,169)

Net Decline is a 1-year forward looking decline assuming the portfolio earns a 5.40% yield (index yield as of 9/30/2026).

The table below summarizes the results of the two analyses. Historically JP Morgan's Interest Rate analysis (50 bps and 100 bps increase) and NEPC's Gross Decline (1 Standard Deviation and 2 Standard Deviation) results have been reasonably consistent. Similar to last year's analysis, the results deviate more significantly as NEPC's capital market assumptions incorporate expectations for interest rates to remain elevated in future years, consistent with market pricing for interest rates.

State of Delaware
Budget Reserve Account "Rainy Day Fund"
Comparative Analysis

	25bps	50 bps	100 bps
JP Morgan Results	$ (5,774,222)	$ (11,548,444)	$ (23,096,887)
	1 SD Event	2 SD Event	3 SD Event
NEPC Gross Decline	$ (28,190,893)	$ (56,381,785)	$ (84,572,678)
NEPC Net Decline	$ 35,238,616	$ 7,047,723	$ (21,143,169)

The consensus market outlook is that an additional rate hike will occur in 2026, with the Fed maintaining rates at elevated levels through much of 2027 due to still-above target inflation levels. This follows the 0.25% rate hike that occurred in September 2026.

Summary & Recommendation

Despite the possibility of interest rates rising further, NEPC recommends no changes to the reserve amount of $392,065,000, as there are sufficient funds to withstand a 3-standard deviation event.

We look forward to discussing the analysis with the full Board at the next meeting of the Cash Management Policy Board.